AGREEMENT TO CONDITIONS OF NEIGHBORWORKS® NETWORK CHARTER

This Charter, dated **January 12,2006**, is made by **Lafayette Neighborhood Housing Services, Inc.**, existing as a 501(c)(3) not-for-profit corporation under the laws of the state of **Indiana**, with the Neighborhood Reinvestment Corporation doing business as NeighborWorks® America, a nonprofit corporation, federally chartered pursuant to P.L. 95-557.

1. WHEREAS the mission of NeighborWorks® America is to strengthen communities and expand the supply of affordable housing through a network of partnership based organizations;

   THEREFORE, **Lafayette Neighborhood Housing Services, Inc.** in accepting this Charter from NeighborWorks® America, does hereby acknowledge and agree as follows:

   a) To subscribe to a mission which is compatible with that of NeighborWorks® America and to develop, manage and maintain programs and services within a defined service area that are at all times in keeping with this mission.

   b) To establish and maintain a Board of Directors that reflects a partnership among resident leaders, the private business community and public officials, in which at least one-third of the Board members are low-income residents or low-income resident representatives of the NeighborWorks ® organization's service area. Resident board members can be:

      - A resident of a low-income community *within the NeighborWorks® organization's service area; OR*
      - A low-income resident *within the NeighborWorks® organization's service area; OR*
      - An individual who is elected or appointed to represent residents of low-income communities *within the NeighborWorks® organization's service area.*

   c) To maintain exemption from Federal Income Tax under Section 501(c)(3) of the Internal Revenue code and to conduct all activities so as not to jeopardize that status; to remain an independent, non-profit corporation not controlled by any other organization and to remain in good standing under applicable laws and regulations of the state where originally chartered.

   d) To establish and maintain a financial management system that complies with Generally Accepted Accounting Principles, includes adequate internal control systems, and otherwise complies with Section VI a) of the NeighborWorks® America Grant Agreement.

   e) To adopt, through the Board of Directors, a conflict of interest policy, including without limitation its directors, officers and staff that, at a minimum meets the parameters set forth in the Grant Agreement, Attachment A, and to remain in compliance with this policy.

EX: A

f) To submit an unqualified annual audit by a certified public accountant conducted pursuant to NeighborWorks® America's "Guidance for the Conduct of Audits" and to transmit a copy of the complete audit to the designated office of NeighborWorks® America within 180 days of the close of the organization's fiscal year.

g) To submit reports to NeighborWorks® America in the form, detail and timeframes required by NeighborWorks® America and to comply with reasonable changes in reporting requirements over time.

h) To submit to NeighborWorks® America the geographic boundaries of the organization's service area and to seek the written approval of NeighborWorks® America's District Director if, at a future date, there is the intent to use NeighborWorks® America funds in a different or expanded geographic area.

i) To participate and cooperate fully in regularly scheduled Program Reviews (including any subsidiaries or related organizations referred to as sub-recipients) conducted by NeighborWorks® America or its designee and to develop and implement a Corrective Action Plan satisfactory to NeighborWorks® America to remedy any significant deficiencies identified in the review.

j) To contribute to raising the visibility of the work and impact of the NeighborWorks® network by clearly and consistently conveying membership in the NeighborWorks® network through use of the "NeighborWorks® Chartered Member" logo[1], NeighborWorks® CHARTERED MEMBER and through descriptive language and text.

At a minimum, the NeighborWorks® Chartered Member logo will be placed on the following items:

- stationery of the NeighborWorks® organization
- all business cards
- web site home page
- newsletter, whether printed or electronic
- signage at the organization's headquarters office
- annual report
- informational brochures

On these items, only the NeighborWorks® organization's own logo may be larger than the NeighborWorks® Chartered Member logo. This Charter hereby grants the NeighborWorks® organization a revocable license to use the NeighborWorks® service mark in accordance with the guidelines and graphic standards prescribed by NeighborWorks® America and outlined in the NeighborWorks® Brand Manual ,[2] as revised from time to time, incorporated herein by reference.

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[1] NeighborWorks® Chartered Member logo is available to download from the NeighborWorks® member website and by request.

[2] The NeighborWorks® Brand Manual is available to download from the NeighborWorks® member website and by request.

k) To comply with the terms of the NeighborWorks® America Grant Agreement and any outstanding Neighborhood Housing Services of America Agreement, where in force, and with the terms of any other agreement governing the relationship between NeighborWorks® America and members of the NeighborWorks® network and related corporations in the NeighborWorks® system which shall be executed at any future time.

2. During the time period that **Lafayette Neighborhood Housing Services, Inc.** remains in good standing as a member of the NeighborWorks® network, NeighborWorks® America shall provide the following benefits:

   a) Technical support and related services.

   b) Competitive grants and other financial assistance.

   c) Scholarships for NeighborWorks® America sponsored training programs and events.

   d) Participation in NeighborWorks® America sponsored conferences and workshops.

   e) Access to the services and resources of Neighborhood Housing Services of America.

   f) Use of the NeighborWorks® service mark and the NeighborWorks® Chartered Member logo and guidance and support in their effective and correct use.

   g) NeighborWorks® America publications and other available information services.

   h) Such other NeighborWorks® America services and resources as may be available from time to time.

3. NeighborWorks® America shall grant this Charter to **Lafayette Neighborhood Housing Services, Inc.**and this Charter shall remain in full force and effect during the period in which this organization shall continue to meet its obligations under this Charter. NeighborWorks® America reserves the right to declare this Charter to be in Provisional status and to suspend any of the Member's Charter rights and privileges for good cause, or to revoke this Charter and all of the Member's Charter rights and privileges if, after notice, the Member shall fail, within a reasonable time, to develop and implement a Corrective Action Plan as required by NeighborWorks® America.

4. Notwithstanding any other provision of this Charter, a NeighborWorks® organization may voluntarily surrender its membership charter at any time if it has acquitted all debts and responsibilities to NeighborWorks® America, Neighborhood Housing Services of America, and related corporations in the NeighborWorks® system

5. This agreement does not create a partnership, joint venture, agency relationship or franchise between NeighborWorks® America and **Lafayette Neighborhood Housing Services, Inc.**; and **Lafayette Neighborhood Housing Services, Inc.** shall have no power to obligate or bind NeighborWorks® America in any manner.

6. This Charter is the complete agreement between the parties with respect to the subject matter herein and this Charter supersedes any previous understanding, oral or written, between the parties and

respecting such subject matter. Any amendments changes, waivers, discharges or releases of any provision of this Charter shall not be valid unless in writing and signed by an authorized representative of each party.

7. Notwithstanding the foregoing, from time to time, NeighborWorks® America may in its sole discretion, reasonably amend Section 1 of this Charter, which relates to NeighborWorks® network member obligations. Any proposed amendment or rule change shall be provided to all network members in writing or by e-mail at least thirty (30) days prior to its effective date. During such thirty day period, network members shall have the opportunity to review the proposed amendment or rule change and offer comment. **Lafayette Neighborhood Housing Services, Inc.** agrees to observe and comply with the final amendment or rule change ultimately enacted.

In agreement to the foregoing:

Lafayette Neighborhood Housing Services, Inc.

By: *John W. Corey* Date: __________
John W. Corey
Board President

NeighborWorks® America

By: __________ Date: __________
Kenneth D. Wade, Chief Executive Officer

Attachments to include:

- NeighborWorks® America Grant Agreement, including Minimum Standards for Conflict of Interest Statement
- Guidance for Conduct of Audits

The NeighborWorks® organization will attach:

- Map and description of service area
- Board resolution approving Agreement to Conditions of NeighborWorks® Charter

Resolution: 2006-1

RESOLUTION

LAFAYETTE NEIGHBORHOOD HOUSING SERVICES, INC.

WHEREAS, Lafayette Neighborhood Housing Services, Inc. was incorporated in 1983 as a partnership of city government, businesses, residents and other interested parties for the purpose of revitalizing neughborhoods;

WHEREAS, Lafayette Neighborhood Housing Services, Inc. has a stated mission of offering affordable housing alternatives to low-to-moderate income persons;

WHEREAS, Lafayette Neighborhood Housing Services, Inc. has been a member of the National NeighborWorks® Network and anticpates continuing that relationship.

BE IT RESOLVED, THAT Lafayette Neighborhood Housing Services, Inc. approves the Agreement to Conditions of NeighborWorks® Network Charter as outlined in the agreement dated January 12, 2006.

NOW THEREFORE BE IT RESOLVED that the Board of Directors of Lafayette Neighborhood Housing Services, Inc. does hereby authorize John W. Corey, Board President to enter into and sign said agreement.

Signed this 11th day of January, 2006

IN WITNESS WHEREOF, I have hereunto affixed my name as Secretary this 11th day of Janaury 2006.

Shari D. Schap

Shari D. Schap, Secretary

Updated Chartering Agreement

Basic Instructions for NeighborWorks Organizations

1. On or after October 17, download or copy the blank Agreement to the Conditions of NeighborWorks Network Charter from the NeighborWorks Member website at http://member.nw.org.

2. Fill in the blanks of the Charter Agreement (electronically or by hand) with your organization name, dates, and other required information. Contact your District Office with questions or for clarification on any item.

3. Route the Charter Agreement through your board and attach a signed resolution to show that your board approves the document provisions.

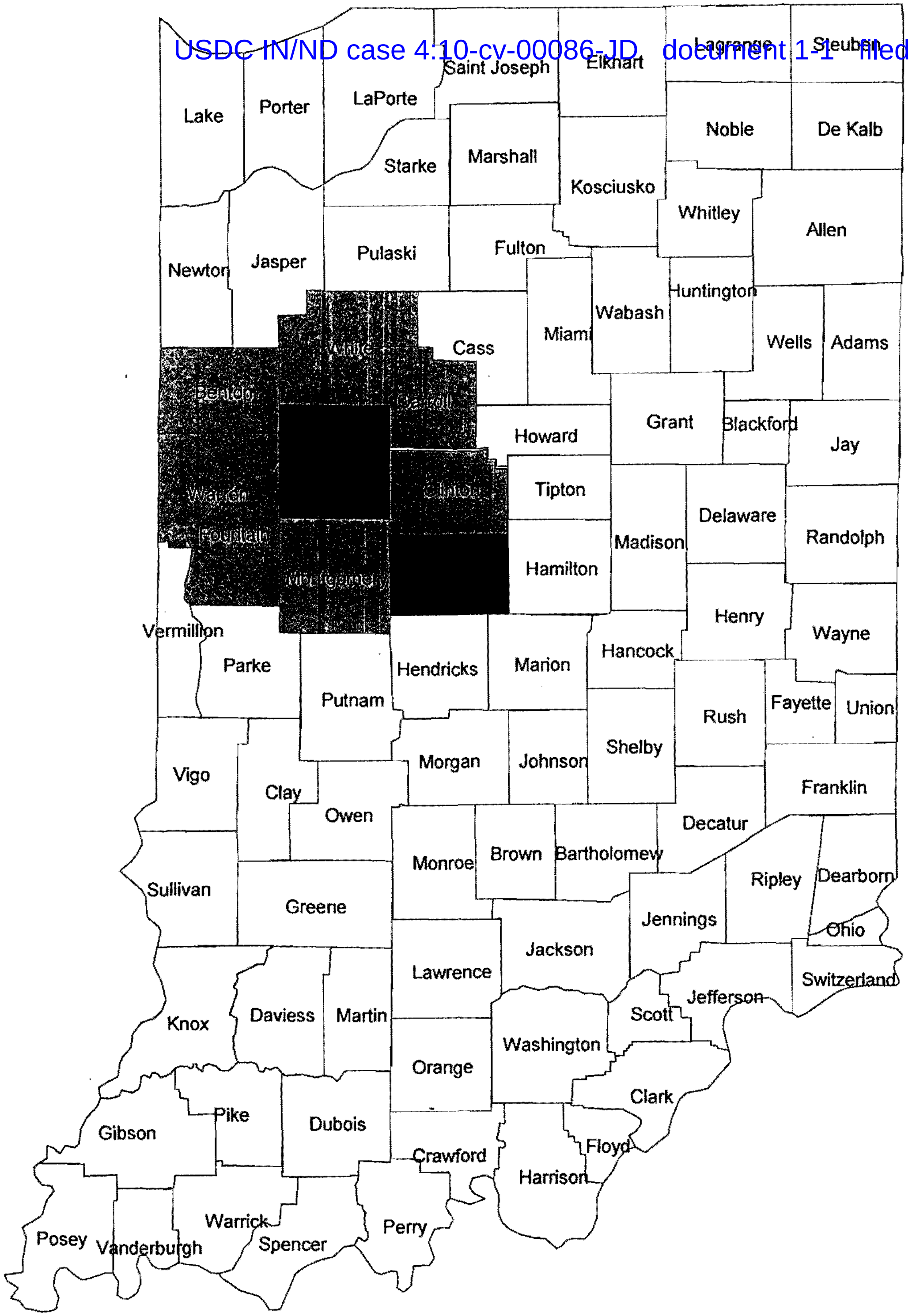
4. Attach a description or map of your service area to the Charter Agreement.

5. **By January 16, 2006**, mail, fax, or email the signed Charter Agreement, the board resolution approving the Charter Agreement, and the map of your service area to:

   Brian Harvey
   1325 G Street, NW Suite 800
   Washington, DC 20005
   Email: bharvey@nw.org
   Fax: 202-376-2531

   All signed Chartering Agreements and attachments must be **received** by 5:00 p.m. Eastern Standard Time on January 16, 2006.

6. **By July 16, 2007**, all NeighborWorks organizations must meet or comply with the provisions in the Charter Agreement.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Pulaski
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Wabash
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Grant
Blackford
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Hendricks
Marion
Hancock
Putnam
Fayette
Union
Rush
Shelby
Vigo
Clay
Morgan
Johnson
Owen
Franklin
Decatur
Monroe
Brown
Bartholomew
Sullivan
Greene
Ripley
Dearborn
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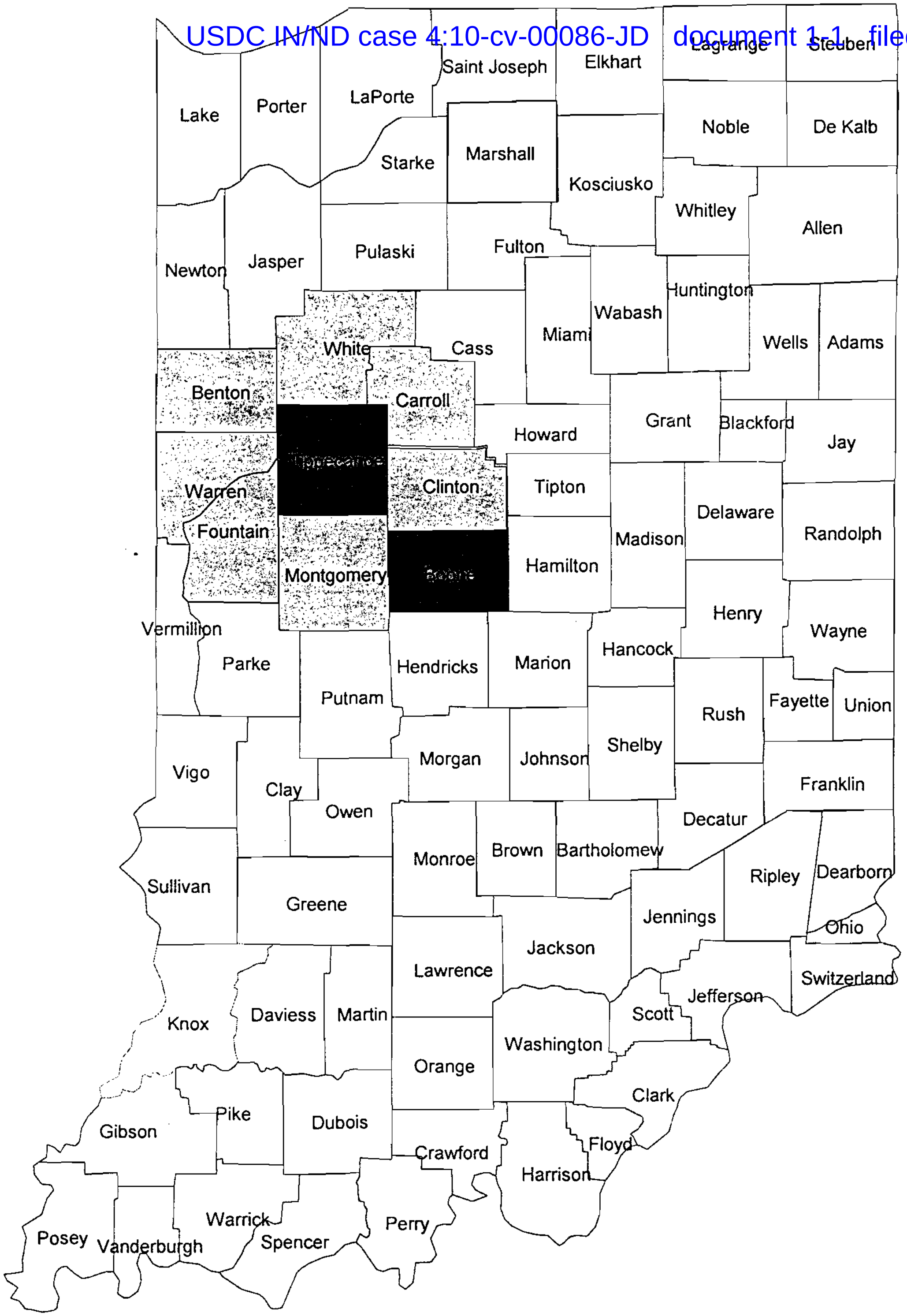
Jackson
Lawrence
Switzerland
Jefferson
Knox
Daviess
Martin
Scott
Washington
Orange
Clark
Gibson
Pike
Dubois
Crawford
Floyd
Harrison
Posey
Vanderburgh
Warrick
Spencer
Perry

Indiana
Lafayette Neighborhood Housing Services, Inc.

Primary Service Area:
Tippecanoe County
Boone County

Additional Housing Counseling Service Area

Benton County, White County, Carroll County, Warren County Clinton County, Fountion County, Montgomery County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Lagrange
Steuben
Noble
De Kalb
Starke
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Kosciusko
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Allen
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Jasper
Pulaski
Fulton
Huntington
Wabash
Miami
White
Cass
Wells
Adams
Benton
Carroll
Howard
Grant
Blackford
Jay
Warren
Fountain
Clinton
Tipton
Delaware
Randolph
Madison
Montgomery
Hamilton
Henry
Wayne
Vermillion
Parke
Hendricks
Marion
Hancock
Putnam
Rush
Fayette
Union
Vigo
Clay
Owen
Morgan
Johnson
Shelby
Franklin
Decatur
Sullivan
Monroe
Brown
Bartholomew
Ripley
Dearborn
Greene
Jennings
Ohio
Jackson
Lawrence
Switzerland
Jefferson
Knox
Daviess
Martin
Scott
Washington
Orange
Clark
Pike
Gibson
Dubois
Floyd
Crawford
Harrison
Warrick
Posey
Vanderburgh
Spencer
Perry

Indiana Lafayette Neighborhood Housing Services, Inc.

Primary Service Area: Tippecanoe County Boone County

Additional Housing Counseling Service Area

Benton County, White County, Carroll County, Warren County Clinton County, Fountion County, Montgomery County

NeighborWorks® America
INVESTMENT and GRANT AGREEMENT

Lafayette Neighborhood Housing Services, Inc.
20 N. 6th Street
Lafayette, IN 47901

Neighborhood Reinvestment Corporation, d.b.a. NeighborWorks® America, a nonprofit, public corporation chartered by the Congress of the United States, and the NeighborWorks® organization identified above ("the NeighborWorks® organization") agree to the following terms and conditions, which will govern the disbursement and expenditure of any restricted capital funds and non-restricted expendable grants provided by NeighborWorks® America to the NeighborWorks® organization.

I. Definitions

The following definitions shall apply to the terms contained within this *Investment and Grant Agreement*:

a. "*Investment and Grant Funds Letter*" shall mean a document signed by authorized representatives of both NeighborWorks® America and the NeighborWorks® organization that details the amount and type of funds to be provided to the NeighborWorks® organization by NeighborWorks® America, and indicates any additional terms and conditions governing the expenditure of those funds, other than as set forth in this Investment and Grant Agreement.

b. "Permanently Restricted Capital Funds" shall mean capital funds held in perpetuity, used for purposes that will build assets for the NeighborWorks® organization and the community in which the NeighborWorks® organization operates. Permanently Restricted Capital Funds require that the NeighborWorks® organization establish and maintain a segregated *Permanently Restricted Revolving Loan and Capital Projects Fund* to account exclusively for their use. These funds are not to be used for non-capitalizable purposes such as paying the day to day expenses of the organization.

c. "Temporarily Restricted Capital Funds" shall mean capital funds that are allowed for the purpose of functioning as a cash loan loss reserve for a specific loan fund or loan and as further defined by this Investment and Grant Agreement or to be used for other temporary restrictions with prior approval by NeighborWorks® America.

d. "Expendable Grants" shall mean funds used and made available by NeighborWorks® America that are unrestricted in nature used to further the NeighborWorks® organization mission.

e. "Impairment Loss" shall mean a loss that exists when the carrying amount of a long lived asset or asset group exceeds the fair value and is non-recoverable.

II. Organizational Requirements of the NeighborWorks® Organization

a. The NeighborWorks® organization represents and warrants to NeighborWorks® America and shall maintain during the term of this Investment and Grant Agreement, including all Investment Letters, that:

EX. B

1. It has received recognition of, and is currently maintaining, exemption from Federal Income Tax under Section 501(c)(3) of the Internal Revenue Code The NeighborWorks® organization shall notify NeighborWorks® America immediately of any actual or threatened change in such status.

2. It is in compliance with NeighborWorks® America's chartering requirements as specified in the Agreement to Conditions NeighborWorks® Network to Charter incorporated herein by reference. In addition, the NeighborWorks® organization has a professional staff possessing the skills needed to accomplish the organizational goals established by the Board of Directors.

3. It is in good standing or existence in the jurisdiction in which it was organized and is qualified to do business in all jurisdictions in which it currently operates. The NeighborWorks® organization shall notify NeighborWorks® America immediately if such status changes.

4. It is, to the best of its knowledge, in compliance with all applicable laws and regulations.

5. It is in compliance with and is abiding by its own policies and procedures, including without limitation its loan policies, development policies and project policies, and such policies and procedures have been adopted by its Board of Directors.

6. It has adopted, through its Board of Directors, and is in compliance with, a conflict of interest policy for itself, including without limitation its directors, officers and staff, that, at a minimum, meet the parameters set forth in Attachment "A."

7. It has procured and maintains with financially sound and reputable insurance companies insurance of the types and in amounts customarily carried by organizations conducting activities similar to that of the NeighborWorks®. Organization. All premiums due and payable have been paid and the NeighborWorks® Organization is otherwise in full compliance with the terms of its insurance policies

8. It has not been convicted of violating the Buy American Act (41 U.S.C. §10a-10c) and that it will buy American - made goods to the extent practicable.

III. Eligible Uses of Permanently Restricted Capital Funds

a. The NeighborWorks® organization shall use Permanently Restricted Capital Funds for the following purposes:

1. Making loans to individuals who cannot be adequately served by local financial institutions, such as homeowners desirous of improving their homes or potential homeowners who wish to purchase affordable housing, to facilitate neighborhood revitalization in the service areas in which the NeighborWorks® organization operates.

2. Making loans to owners of residential rental or mixed use commercial/residential rental properties for acquisition, construction, rehabilitation or development to facilitate neighborhood revitalization in the service areas in which the NeighborWorks® organization operates.

3. Making loans to individuals and/or loans and/or equity investments to businesses that cannot be adequately served by local financial institutions for economic development activities to facilitate neighborhood revitalization in the service areas in which the NeighborWorks® organization operates.

4. Funding capitalized pre-development costs associated with determining the feasibility of

acquiring and developing specific real estate properties and/or specific economic development or commercial activities, including without limitation the operations of a business, designed to facilitate neighborhood revitalization in the service areas in which the NeighborWorks® organization operates, consistent with the requirements of Statement of Financial Accounting Standards No. 67 or its applicable successor.

5. Funding capitalized costs, as debt or equity, incurred for the acquisition, construction, rehabilitation or development of, specific real estate properties and/or specific economic development or commercial activities, including without limitation the operation of a business, designed to facilitate neighborhood revitalization in the service areas in which the NeighborWorks® organization operates.

6. Funding of consulting fees which are deemed to be capitalizable under GAAP in connection with any of the provisions mentioned in Section III.a. of this agreement.

7. Establishing and maintaining cash loan loss reserves that support the eligible uses specified in Sections III(a)(1), III(a)(2) and III(a)(3) and as further defined in this Investment and Grant Agreement, subject to the provisions of Section V. Eligible Uses and Management of Temporarily Restricted Capital Funds.

8. NeighborWorks® America may in certain circumstances provide additional Permanently Restricted Capital Funds for other purposes as it deems appropriate.

b. The NeighborWorks® organization shall use its best efforts to develop supplemental private and public sources of funding in support of the Permanently Restricted Revolving Loan and Capital Projects Fund. It is expected that these other sources of funds will exceed the amount of the NeighborWorks® America funding.

c. Loans may be made at flexible rates and terms without regard to loan-to-value ratios.

d. Repayment of principal on loans made from Permanently Restricted Capital Funds and proceeds from capital projects funded from Permanently Restricted Capital Funds must be returned to the Permanently Restricted Revolving Loan and Capital Projects Fund to ensure that the Capital Fund amount provided by this Investment and Grant Agreement, including all Investment and Grant Agreement Letters, is maintained intact.

e. Interest on loans may be transferred to another fund, such as the general operating fund, to be used unrestricted for purposes of furthering the NeighborWorks® organization's mission.

f. Proceeds on capital projects, including without limitation of specific real estate properties, businesses and/or economic development or commercial activities, in excess of funds necessary to maintain the total amount of Permanently Restricted Capital Funds provided by NeighborWorks® America invested or otherwise used to fund such projects may be transferred to another fund, such as the general operating fund, for unrestricted use in furthering the NeighborWorks® organization's mission.

IV. Management of Permanently Restricted Capital Funds

a. Cash from any Permanently Restricted Capital Funds provided by NeighborWorks® America, and not expended according to the terms in Section III, shall be fully invested in securities either of the United States government or that are guaranteed by the United States government, or exclusively deposited in federally insured or state insured accounts as defined in the NeighborWorks® Guidance for the Conduct of Audits. In addition, such cash may be placed in repurchase accounts pursuant to written repurchase agreements with reputable, Federal Deposit Insurance Corporation member financial institutions for overnight purposes (until the next business day).

b. The NeighborWorks® organization shall obtain fidelity bond coverage or honesty insurance in an amount that is at least equal to the lesser of (a) its Permanently Restricted Capital Fund balance, or (b) $250,000. NeighborWorks® America shall be recognized as an additional insured on such policies up to the limits specified in the preceding sentence.

c. All uses of Permanently Restricted Capital Funds must be documented in writing by loans or investment and grant agreements and a schedule of allocations for funds spent for predevelopment purposes pursuant to NeighborWorks® America's Guidance for the Conduct of Audits.

d. Fund recipients remain liable for the full accounting of all Permanently Restricted Capital Funds in accordance with the terms and conditions of this Investment and Grant Agreement.

1) Transfers of Permanently Restricted Capital Funds to any other entity other than an end user of such funds, including without limitation any subsidiaries or related organizations, must have the recipient of any such transfer, known as a subrecipient:

a) agree to abide by, be added as an additional party to, and be deemed a party to, the following sections of this Investment and Grant Agreement :

i. Sections III(a), III(c)-(f),
ii. Section IV,
iii. Sections VII(a), (c), and (d)
iv. Sections IX-XVI; and

b) be liable for the accounting of all Permanently Restricted Capital Funds to NeighborWorks® America in accordance with the terms and conditions of this Investment and Grant Agreement.

2) To implement any such transfer:

a) the subrecipient and the NeighborWorks® organization must execute a written agreement documenting the transfer of such funds and the subrecipient's obligations vis-à-vis NeighborWorks® America , and

b) a copy of such executed agreement must be received by NeighborWorks® America as soon as practicable and preferably prior to, but in no event later than immediately after, the funds have been so transferred.

3) Any such transfer shall be accounted for in accordance with Generally Accepted Accounting Principles ("GAAP").

4) With respect to the pass through of Capital Funds to affiliates or single use real estate entities sponsored by the NeighborWorks® Organization:

a) NeighborWorks® Organizations have the right to pass through Permanently Restricted Capital Funds specifically for the purpose of furthering programs including, but not limited to, the USDA 515, HUD 202 and various CDFI programs and other programs approved by NeighborWorks® America Director Field Operations.

b) NeighborWorks® America shall retain the right to place restrictions on "pass-through" funds so that NeighborWorks® America retains a level of oversight in regard to the use of such funds.

1) The NeighborWorks® organization or pass-through entity shall maintain appropriate documentation of funds expended.

2) At the discretion of NeighborWorks® America, the NeighborWorks® organization shall monitor compliance for a period specified by NeighborWorks® America, in which the entity is required to perform the following:

i. Submit an annual audit performed in accordance with Generally Accepted Auditing Standards/Governmental Auditing Standards

ii. Maintain annual compliance documents as required by NeighborWorks® America.

c) If the Permanently Restricted Capital Funds are utilized with a HUD 202 or USDA -515 rental project or as an equity infusion within a CDFI and the NeighborWorks® Organization is no longer able to reflect these funds as a permanently restricted asset on its balance sheet then the NeighborWorks® Organization may request a Capital Fund Adjustment as defined below.

e. Should an asset, which was purchased or constructed with the use of NeighborWorks® America Permanently Restricted Capital Funds become impaired, the organization should assign an amount equal to the amount of the impairment.

f. Use of Permanently Restricted Capital Funds for general operating purposes is not allowed without prior written approval of NeighborWorks® America.

g. The NeighborWorks® Organization may request a Capital Funds Adjustment of its Capital Funds balance from NeighborWorks® America for the following reasons:

1) A NeighborWorks® Organization may use existing Permanently Restricted Capital Funds as a cash loan loss reserve per Section III a. 7 and further defined in Section V. The NeighborWorks® Organization, upon approval from NeighborWorks® America, may seek a reduction of the Permanently Restricted Capital Funds Balance for the purpose of establishing a Temporarily Restricted Account to function as a cash loan loss reserve for a loan fund or loan that serves the purposes defined in Section III a, b, c, and whose usage follows the restrictions as outlined in Section V.

2) A NeighborWorks® Organization, in utilizing its Permanently Restricted Capital Funds for purposes defined in Section III a. 1, 2, 3, 4, 5, and 6, may sustain a loss of these funds through the course of normal business operations.

h. The NeighborWorks® organization agrees to remain fully informed of, and shall fully comply with, all applicable laws and regulations.

i. The NeighborWorks® organization shall segregate all Permanently Restricted Capital Funds by maintaining and accounting for such funds in the *Permanently Restricted Revolving Loan and Capital Projects Fund.* Such funds shall not be commingled with or transferred to any other funds, except as otherwise allowed for in this Agreement.

j. The NeighborWorks® organization will give NeighborWorks® America prompt notice of any breach of any provision of this Investment and Grant Agreement or any action or event that may be cause for suspension or termination of this Investment and Grant Agreement. Failure to provide such notice also constitutes a breach of this Investment and Grant Agreement. Notices shall be sent in writing to NeighborWorks® America's District Director in whose district the NeighborWorks® organization operates.

k. The NeighborWorks® organization shall promptly notify (within 60 days of the transaction or audit) NeighborWorks® America if the NeighborWorks® organization becomes aware of any fact or circumstance that the NeighborWorks® organization believes may reasonably result in a:

1) material impairment of an investment of the lesser of either (a) $100,000 or (b) ten percent (10%) of the Permanently Restricted Capital Funds provided by NeighborWorks® America

2) material adverse change to the business or operations of the NeighborWorks® organization that will impact its ability to perform under this Investment and Grant Agreement.

V. Eligible Uses and Management of Temporarily Restricted Capital Funds

a. The NeighborWorks® organization may use Temporarily Restricted Capital Funds for the following purpose:

1) Establishing and maintaining cash loan loss reserves that support the eligible uses specified in Sections III(a)(1), III(a)(2) and III(a)(3).

i. The NeighborWorks® organization, upon negotiation with and approval by NeighborWorks® America, will establish and maintain cash loan loss reserves. Once the cash loan loss reserve is approved and established, there is no replenishment of the cash loan loss reserve without the expressed written consent of NeighborWorks® America.

ii. Trigger events for the release of the cash loan loss reserves, include, but are not limited to the following:

(1) A NeighborWorks® organization's inability to protect the principle of the investors' loan pool.

(2) Liquidation of a NeighborWorks® organization would generally constitute an event that may trigger release of the cash loan loss reserves.

iii. An impairment loss recorded by a financial participant on its investment in a NeighborWorks® organization or an impairment loss recorded by a NeighborWorks® organization on a loan to or investment in another entity would not trigger a release of the cash loan loss reserves.

iv. The NeighborWorks® organization, upon approval from NeighborWorks® America, will remove the funds used for this purpose as Permanently Restricted Capital Funds as outlined in Section IV (g) – Capital Funds Adjustment.

VI. Eligible Uses and Management of Expendable Grant Funds

a. The NeighborWorks® organization shall use Expendable Grants to defray a portion of the NeighborWorks® organization's operating expenses in support of its mission to revitalize neighborhoods and support affordable housing opportunities.

b. Expendable Grants are not to be commingled with Permanently Restricted or Temporarily Restricted Capital Funds.

VII. Financial Accounting and Reports

a. The NeighborWorks® organization and subrecipients, where applicable, shall establish and maintain a financial management system that enables the organization to prepare financial statements in accordance with Generally Accepted Accounting Principles and takes into account adequate internal control systems.

The financial management system shall provide for:

1) The accounting and reporting of NeighborWorks® America Permanently Restricted and Temporarily Restricted Capital Funds separate and distinct from other sources of funds. The amount of net assets in the *Permanently Restricted Revolving Loan and Capital Projects Fund* shall equal or exceed the total amount specified in the most recently executed *Capital Funds Letter.* If no *Capital Funds Letters* have been executed, the amount of net assets in the *Permanently Restricted Revolving Loan and Capital Projects Fund* shall equal or exceed the total amount specified in the box on the first page of the *Capital Fund Letter* or this Investment and Grant Agreement, whichever comes later.

2) Records supported by adequate documentation that identify the source and application of funds for all of the activities of the organization.

3) The safeguarding and effective control over all Permanently Restricted and Temporarily Restricted Capital Funds, property and other assets, and the assurance that they are used solely for authorized purposes.

4) An annual audit by an independent certified public accountant selected by the Board of Directors of the NeighborWorks® organization, performed in accordance with NeighborWorks® America 's *Guidance for the Conduct of Audits* and other formal written communications provided by NeighborWorks® America from time to time, and a systematic method to ensure timely and appropriate resolution of audit findings and recommendations. Specifically, the audit will identify the net assets, including cash, funded by any permanently restricted funds, including without limitation the NeighborWorks® America Permanently *Restricted Revolving Loan and Capital Projects Fund.* Any impairment charged to the *Permanently Restricted Revolving Loan and Capital Projects Fund* shall be explained to the complete satisfaction of NeighborWorks® America and in accordance with NeighborWorks® America's *Guidance for the Conduct of Audits.*

   Because these funds are federal funds, entities that receive these grants and expend more than $500,000 in federal funds during the fiscal year will comply with Office of Management and Budget ("OMB") A-133 audit requirements. Additionally, Grantees that are non-profit organizations will be subject to the administrative requirements of OMB Circular A-110, as it may be amended, relating to consistent administration of grants to non-profit organizations and A-122, relating to cost principles for grants and other agreements with non-profit organizations.

5) Any Temporarily Restricted Capital Funds resulting from a conversion of Permanently Restricted Capital Funds must be reported separately and as further described in the NeighborWorks® America *Guidance for the Conduct of Audits.*

6) The retention of records of financial transactions for a minimum of three years. If any litigation, claim or audit commences before the expiration of the three-year period, the records shall be retained until six months after all such litigation, claims, or audit findings involving the records have been completely and finally resolved.

b. The NeighborWorks® organization shall submit to NeighborWorks® America :

1) Programmatic and fiscal reports in accordance with NeighborWorks® America's reporting requirements.

a. The above reporting, unless specifically waived, shall continue so long as the NeighborWorks® organization or its subrecipients or successors receive or retain NeighborWorks® America services or capital funds, loan repayments, proceeds from capital projects, interest earnings and/or the services of Neighborhood Housing Services of America.

2) A copy of the annual audit, accompanied by an A-133 audit, if required, and a management letter, if any, and a copy of the organization's filed Form 990 (or any approved extension) within 180 days of the close of the organization's fiscal year.

c. NeighborWorks® America or its designee will conduct a periodic review of any or all aspects of the NeighborWorks® organization and, if so desired, its subrecipients, and the NeighborWorks® organization and its subrecipients shall cooperate fully with any such review and shall comply with any Corrective Action Items resulting from the review to remain in compliance with this Agreement.

d. The NeighborWorks® organization and its subrecipients shall allow NeighborWorks® America or its authorized representative to audit its books and records at any time during reasonable business hours with no less than two business days' advance notice, and shall fully cooperate in any such audit.

e. NeighborWorks® America or its designee retains the right to request a meeting with the NeighborWorks® organization board of directors or governing body.

VIII. Disbursement of Capital Funds

Capital funds awarded in any given year will be disbursed by NeighborWorks® America following the execution of an *Investment and Grant Letter* unless otherwise noted on the *Investment and Grant Letter*.

IX. Equal Employment Opportunity

The NeighborWorks® organization shall not discriminate against any employee or applicant on the basis of race, color, ethnicity, religion, gender, sexual orientation, age, disability, national origin, marital status or the fact that all or part of an applicant's income derives from any public assistance program.

X. Subordination and Default Provisions

With respect to the capital funds and related assets of the NeighborWorks® organization, NeighborWorks® America hereby gives the right, but not the obligation, to the NeighborWorks® organization to subordinate these funds to any investment and loan used for the defined purposes stated in Section III of this agreement.

The order of the respective priority as indicated herein is provided that in the event of a bankruptcy, NeighborWorks® America capital funds are subject to the order of any bankruptcy court having jurisdictions as to the entitlement of creditors to any proceeds. At which time, NeighborWorks® America will retain the sole discretion to receive any collateral in accordance with official bankruptcy court proceedings.

a. Events of Default:

1. If one or more of the following events occurs, NeighborWorks® America in its sole discretion may find the NeighborWorks® organization to be in default:

   a) failure by the NeighborWorks® organization to comply with or to breach any provision of this Investment and Grant Agreement or Charter Document, including chartering requirements and the Agreement to Conditions to Charter
   b) engagement in any action or event that may be cause for suspension or termination of this Investment and Grant Agreement or Charter Document,
   c) failure by the NeighborWorks® organization to continue as a going-concern, or otherwise become defunct,
   d) surrender by the NeighborWorks® Organization of its NeighborWorks® America charter,
   e) conduct by any director, officer or senior manager of the NeighborWorks® organization that results in fraud, willful misconduct or gross negligence or misappropriation of any funds or other property of the NeighborWorks® organization,
   f) receipt of notice from the Internal Revenue Service of a revocation of its Federal Income Tax status under Section 501(c)(3),
   g) an adverse standing or existence in the jurisdiction in which the organization was organized and is not qualified to do business in all jurisdictions in which it currently operates.

b. The occurrence of an event of default as described in Section X.a, does not automatically place the NeighborWorks® organization in default. NeighborWorks® America retains the right and authority, in its sole discretion and judgment, to place the NeighborWorks® organization in default. In addition, NeighborWorks® America may bring notification of such default to other financial participants of the NeighborWorks® organization.

c. Default Remedies:

1. Events of default shall not necessarily trigger automatic remedies; however, at the discretion of NeighborWorks® America and with NeighborWorks® America's best and reasonable efforts to consult with other NeighborWorks® organization financial participants, the remedies described in Section X.c.2, may be initiated. Notwithstanding the foregoing, consultation with other financial participants shall not be construed as a condition precedent to NeighborWorks® America pursuing default remedies.

2. If NeighborWorks® America finds or determines that the NeighborWorks® organization is in default under Section X.a.1, NeighborWorks® America may initiate any one or more of the following actions subject to Section X.c.1.

   a) terminate or reallocate any unused portion of the NeighborWorks® America Permanently Restricted Capital Funds,
   b) require the NeighborWorks® organization to stop expending some or all Permanently and Temporarily Restricted Capital Funds, interest earnings, proceeds and the loan and capital project portfolios representing the use of these and any subrecipient funds,
   c) prohibit the NeighborWorks® organization or any of its affiliates from receiving additional funding from any NeighborWorks® America program,

d) require the NeighborWorks® organization and subrecipient to return some or all of their Permanently and Temporarily Restricted Capital Funds, interest earnings, proceeds and any loans and capital project portfolios representing the use of these funds, to NeighborWorks® America, subject to any approved subordination agreement(s), and

e) take any other action permitted by the terms of this Investment and Grant Agreement, the Agreement to Conditions of NeighborWorks® Network Charter or available under law, including but not limited to revocation of the NeighborWorks® Charter and all of the Member's Charter rights and privileges

3. NeighborWorks® America reserves the right to pursue any and all lawful remedies to preserve NeighborWorks® America's rights under this agreement. If the NeighborWorks® organization fails to cure events of default within a reasonable period of time, NeighborWorks® America shall have the right to terminate this Investment and Grant Agreement at which time the NeighborWorks® organization would be subject to events of default described in Section X.a.1.a - g.

XI. Miscellaneous Provisions Applicable to All Grant Funds

a. Payments to Consultants. If any grant funds are used to pay a consultant, the maximum amount allowable to pay the salary of any individual shall not be greater than the daily equivalent of the rate paid for level IV of the Executive Schedule of the United States Government, unless otherwise provided by law.

b. Clean Air Act/Federal Water Pollution Control Act. If grant funds provided exceed $100,000, the NeighborWorks® Organization agrees to comply with all applicable standards, orders or regulations pursuant to the Clean Air Act (42 U.S.C. §7401 et seq.) and the Federal Water Pollution Control Act as amended (33 U.S.C. §1251 *et seq*.).

c. Byrd Amendment. If grant funds provided exceed $100,000, the NeighborWorks® Organization certifies that it will not and has not used these funds to pay any person or organization for influencing or attempting to influence an officer or employee of any agency, a member of Congress, officer or employee of Congress, or an employee of a member of Congress in connection with obtaining any Federal contract grant or other award covered by 31 U.S.C. §1352.

XII. Entire Agreement

This Investment and Grant Agreement constitutes the whole agreement between NeighborWorks® America and the NeighborWorks® organization and supersedes all prior written or oral agreements involving capital funds. This Investment and Grant Agreement may be amended or superseded only in writing and executed by the authorized representatives of both parties.

XIII. Waiver

No waiver by either party of any breach or failure of compliance with respect to any provision of this Investment and Grant Agreement shall be deemed to be a continuing waiver in the future thereof or a waiver of any other provision of this Investment and Grant Agreement; nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

XIV. Severability

If any term, provision, covenant or restriction of this Investment and Grant Agreement is held to be invalid, void or unenforceable, such provision shall be amended by the parties only to the extent necessary to be enforceable consistent with the parties' intent, and the remainder of the terms, provisions, covenants or restrictions of this Investment and Grant Agreement shall remain in full force and effect, unless such action would substantially impair the benefits to any party of the remaining provisions of this Investment and Grant Agreement.

XV. Approval of the Board of Directors

The NeighborWorks® organization shall provide an appropriately executed board resolution approving this Investment and Grant Agreement, in a form reasonably satisfactory to NeighborWorks® America, which specifically allows the NeighborWorks® organization to enter into this agreement that also specifies the person authorized to sign the agreement on behalf of the organization.

XVI. District of Columbia Law

This Investment and Grant Agreement shall be construed and interpreted under the laws of the District of Columbia, without reference to its principles regarding conflicts of laws, regardless of its place of execution or performance.

XVII. Attachment "A" specifying the minimum parameters required for the conflict of interest policy is hereby incorporated by reference into this Investment and Grant Agreement.

IN AGREEMENT TO THE FOREGOING:

Lafayette Neighborhood Housing Services, Inc.

By: Marie Morse, Interim Executive Director Date: 8-11-08

Name: Marie Morse

Board President or Authorized Representative

Neighborhood Reinvestment Corporation, dba NeighborWorks® America

By: [signature] Date: 10-28-08

Eileen Fitzgerald, Chief Operating Officer

ATTACHMENT "A"

Minimum Parameters Required for Conflict of Interest Policy

The purpose of a conflicts of interest policy is to protect the NeighborWorks® organization's interest when it is contemplating entering into a transaction or arrangement that might benefit the private interest of an officer or director of the NeighborWorks® organization. Such policy should supplement and be consistent with, but not replace, any applicable Federal, state or local laws governing conflicts of interest applicable to nonprofit and charitable corporations.

- Define Conflict of Interest -
  - Who? Interested Persons (Directors and Officers of the NeighborWorks® organization).
  - What? Interested Person having a Financial Interest, directly or indirectly, through business, investment or family, in a transaction or arrangement involving the NeighborWorks® organization.
- Procedure for Resolving Conflict of Interest -
  - How? Duty of Disclosure by Interested Person of existence and nature of actual or potential conflict of interest to Disinterested Directors, those who are not Interested Persons, in a transaction or arrangement involving the NeighborWorks® organization.
    - Recusal by Interested Person after Disclosure from deliberations by Disinterested Directors on the transaction or arrangement.
    - Decision by Majority of Disinterested Directors approving such transaction or
    - Arrangement after exercising appropriate Due Diligence.
- Standard for Determining Existence of Conflict of Interest and Approval of Transaction or Arrangement by Disinterested Director –
  - Can NeighborWorks® organization obtain a More Advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interest?
  - If no, is the transaction or arrangement in the NeighborWorks® organization's Best Interest, for its Own Benefit, and Fair and Reasonable to the NeighborWorks® organization.
- Documenting Procedure for Resolving Conflict of Interest –
  - Record in Minutes of Board of Directors, names of persons participating in the deliberations, summary of discussion, including proposed alternatives, and record of votes taken in connection with final determination.
- Annual Statements –
  - Each Interested Person shall Annually Sign a Statement, affirming that such person has:
    - Received copy of conflicts of interest policy,
    - Read and understands the policy,
    - Agreed to comply with the policy,
    - Understands that the NeighborWorks® organization is a charitable organization with federal tax exempt status and it must engage primarily in activities that accomplish its tax-exempt purpose(s).
- Periodic Review of Conflicts of Interest Policy and its Requirements –
  - To ensure NeighborWorks® organization operates consistent with its charitable purposes and does not engage in activities that could jeopardize its exemption from federal income tax.

NeighborWorks®
AMERICA

Great Lakes District
2368 Victory Parkway, Suite 210
Cincinnati, OH 45206-2810

(513) 221-4260
Fax (513) 221-4425

August 10, 2007

Mr. Gary Henriott, Board President
Lafayette Neighborhood Housing Services
c/o Henriott Group
8 North Third Street, Suite 101
Lafayette, Indiana 47903

Dear Mr. Henriott:

I regret to notify you that Neighborhood Reinvestment Corporation , doing business as NeighborWorks® America, has decided to place the Lafayette Neighborhood Housing Services (hereinafter "LNHS") charter in *provisional status*. This decision is the result of the serious and continuing violations of the terms of The Agreement to Conditions of Charter (the "Charter" Agreement) dated January 30, 2006, and the Neighborhood Reinvestment Grant Agreement, the last of which was dated May 15, 2007. **As a result of this action, use of NeighborWorks® capital funds must cease until further notice.** In addition, resources from Neighborhood Housing Services of America (NHSA) and NHSA/CDFI will not be available unless approved by both me as District Director and by NHSA. Finally, LNHS will be ineligible to receive grants, training or technical assistance from NeighborWorks® America unless such assistance is deemed necessary to remediate issues which have led to this provisional status.

The primary reasons supporting this decision are:

- **The organization's prolonged inability to improve its financial status**: The organization has failed to generate enough revenue to support its operation. The result is that LNHS has continued to operate at a deficit even as it reduces its staff and services. There is significant concern about the sustainability of the organization.

Furthermore, the organization is in violation of section 1.e. of the Charter:

> To submit an unqualified annual audit by a certified public accountant conducted pursuant to Neighborhood Reinvestment's "Guidance for the Conduct of Audit" and to transmit a copy of the complete audit within 180 days of the close of the organization's fiscal year.

EX: C

As LNHS's fiscal year ends on December 31, the unqualified independent audit was due to NeighborWorks® America on June 30, 2007.

Attached is a Memorandum of Understanding that outlines the conditions that must be met by March 1, 2008, in order for us to consider a change of your provisional status. If the organization fails to comply or fail to meet the set goals, steps will be taken to revoke the charter.

Please contact R. Tony Lewars or Paul Poston at 1-877-316-8880 with any questions.

Sincerely,

Paul Poston
Great Lakes District Director

Enclosure: Memorandum of Understanding

cc: Marie Morse, Interim Executive Director, Lafayette NHS
All current LNHS board members
Robert Burns, Director of Field Operations, NeighborWorks® America
David Landis, NHSA

PROVISIONAL MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding is between NeighborWorks® America and Lafayette Neighborhood Housing Services (LNHS), with this agreement being implemented and overseen by the NeighborWorks® America Great Lakes district office and LNHS.

I. Current Status of LNHS

LNHS has suffered significant financial losses. There are serious concerns about whether LNHS' can continue operations given the financial deficit and its inability to attract revenue

II. NeighborWorks® America Identification of Risk Issues

NeighborWorks® America is charged with careful oversight of its funding. The LNHS current financial condition and organizational instability have raised serious concerns with NeighborWorks® America regarding the security of its assets with, and the future viability of LNHS. These concerns include the financial stability of LNHS, its resource development capacity, leadership stability, use of appropriate accounting and recordkeeping systems, portfolio management, and the need for the reorganization of LNHS's scope and operation in order to provide a sustainable organization. To date, during this transitional period, NeighborWorks® America has provided LNHS operational funding and technical assistance in financial management.

A. Financial Management

The late audit is a violation of the NeighborWorks® charter. **LNHS must complete its audit for FY 2006, provide it to NeighborWorks® America by December 31, 2007 and provide timely, accurate financial reports on a quarterly basis.**

In addition, LNHS must provide NeighborWorks® America by December 31, 2007 with a complete reconciliation of all NeighborWorks® America capital funds and their current status, i.e., cash, accounts receivable, loans, loan losses, liabilities and net assets at June 30, 2007.

B. Resource Development

LNHS must generate revenue that is sufficient to cover operating expenses, as measured by reporting breakeven operations in unaudited financial statements for the six months ended December 31, 2007.

III. Role of LNHS

During the period beginning with the signing of this Memorandum of Understanding, the LNHS board of directors shall:

A. Demonstrate to the NeighborWorks® America Great Lakes district office by January 31, 2008, through financial reports described below and other appropriate documentation, that LNHS has:

- Generated sufficient revenue to cover all operating expenses
- Resolved all outstanding issues with LNHS secured creditors

- Developed an effective and sustainable program of services for Lafayette

B. Provide to the NeighborWorks® America Great Lakes district office LNHS board meeting packets and minutes, including all related information and attachments, at the same time as such packets and minutes are delivered to LNHS's board members. The board packet should include a monthly status report on resource development and production performance, along with monthly financial statements.

C. Provide to the NeighborWorks® America Great Lakes district office a balanced budget based on LNHS's current financial situation by August 31, 2007.

D. Provide to the NeighborWorks® America Great Lakes district office, by September 30, 2007 and by the first of each succeeding month, monthly cash flow statements, reflecting projected cash flows for six months. These cash flow statements should reflect firm funding commitments and actual expenses.

E. Restructure all debt agreement to improve terms and lower overall borrowing costs by December 31, 2007.

F. Provide to NeighborWorks® America by December 31, 2007 documentation that LNHS is current on all secured debt agreements and interest due at year-end.

G. Provide to the NeighborWorks® America Great Lakes district office by December 31, 2007 operating statements for the rental property portfolio indicating attainment of 95% collections of gross potential rents and positive cash flow for the portfolio.

H. Provide to the NeighborWorks® America Great Lakes district office by January 31, 2008, a budget-to-actual comparison report showing at least breakeven operations for the six months ended December 31, 2007.

IV. Role of NeighborWorks® America

NeighborWorks® America staff will work toward resolution of issues mutually identified and agreed upon by both NeighborWorks® America and the LNHS board of directors.

V. Time Frame

This Memorandum of Understanding will become effective on or before August 1, 2007 when adopted as a resolution by the board of LNHS and will terminate on March 1, 2008.

VI. NeighborWorks® America Funding to LNHS

No capital or expendable grant funds will be released to LNHS until the conditions of this Memorandum of Understanding have been met. This includes funding requested during NeighborWorks® America's 2008 Round I grant period.

VII. Provisional Status

If the NeighborWorks® America Great Lakes district office does not receive the specified documents by the specified dates, NeighborWorks® America may immediately take the steps necessary to revoke LNHS' NeighborWorks® charter and disaffiliate LNHS from the NeighborWorks® network.

This document is a Memorandum of Understanding only. It is entered into only as a declaration of present intent. Nothing herein shall be construed as a legally binding commitment of any part or parties hereto either individually or collectively. This Memorandum of Understanding does not create any rights either on the part of any party hereto or any third party.

In agreement of the foregoing, the duly authorized representatives of the parties to this Memorandum of Understanding have signed below.

Lafayette Neighborhood Housing Services

[signature] 9/18/07

Board President **Date**

Please attach a board resolution indicating acceptance of Memorandum of Understanding.

NeighborWorks® America

Paul R. Poston, District Director **Date**

Attachment [illegible].
LNHS' Reservations + Qualifications

9/18/07
Reservations and Qualifications from LNHS Board
Regarding the MOU with NWA with letter dated 8/10/07

- II A. Financial Management – We are negotiating with an audit firm to do the 2006 audit. The audit should begin within the next 2-3 weeks. We will provide you our financial information as requested but the FY 2006 audit may require some accounting adjustments and changes which will not be made until the audit is completed.
- II B. Resource Development – As you know, we are starting the planning process to create a new entity to carry on LNHS' core mission on September 25th. Without a new entity and a new plan in place, our ability to develop resources is limited, at best.
- III A 2nd bullet point – In may not be possible to resolve all outstanding issues with LNHS' secured creditors for a considerable period of time. With the court appointed receivership for the 43 properties, we are beginning to execute our strategy for addressing these matters.
- III C. – The 8/31/07 date for a balanced budget has come and gone. The creation, through our planning process, of a new entity with a new mission which is needed by our community and is financially sustainable, will include a balanced budget.
- III E. – It is doubtful that LNHS' debt can be restructured. We will be employing all possible strategies to protect, to the best of our ability, all stakeholders.
- III F. – We will not be current on all secured debt and interest by 12/31/07.
- III G. – We hope to extricate ourselves from all rental properties and the related obligations as soon as possible with the exception of the HPL properties.

Thanks Paul-
That is what I was looking for! I will review with Marie, because she may have further questions for you.
Thanks again for your help and assistance!!
Gary

Gary D. Henriott, CPCU
Chairman and CEO
Henriott Group, Inc.

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This email and any attachments may contain information that is confidential. If you are not the named recipient(s) and receive this e-mail in error, please notify the sender and delete this e-mail and any attachments. Thank you."

From: Paul Poston [mailto:PPoston@nw.org]
Sent: Wednesday, November 19, 2008 1:48 PM
To: Gary Henriott
Cc: Marie Morse; Royston Lewars
Subject: RE: A couple of items

Gary:
Thanks for the note.
As you may recall, a network member emerging from bankruptcy is something new for NeighborWorks®, so I am not sure I can really give you good advice on what to expect. This is what I would hope:

1) When LNHS emerges from bankruptcy, the provisional status would also end. This would in effect mean that the charter with NeighborWorks® would no longer be at risk, barring some other change in LNHS' circumstances
2) As soon as the bankruptcy is over and the audits are finalized, LNHS should forward the final audits to our Kansas City office for their review.
3) On the basis of the resolution of the bankruptcy, audit review, and possibly other additional information, LNHS would be assigned a new NeighborWorks® rating. I don't know what that would be, but it would probably be in one of the two lower categories: satisfactory (hopefully) or vulnerable (more likely). Ratings are assigned by the OHTS committee we have described for you previously. I also don't know what additional information might be requested but will inform you as soon as I do.
4) In the case of either of the 2 ratings above, LNHS could apply for and receive grant funds from NeighborWorks®, but we would still need to present a case for releasing funds, as we have done recently. We would need to work with you to resolve any issues necessary to move LNHS up in the ratings. Tony would take the lead on this with LNHS.
5) LNHS does not currently show up on the schedule for a review by our Organizational Assessment unit for 2009. It is possible that one might be scheduled as a result of LNHS emerging from bankruptcy and provisional status. When one is scheduled, Tony will help prepare LNHS for the assessment, Marie also has quite a bit of experience with these, which I'm sure will be helpful.
6) I've asked Tony to follow up on the HUD certification issue. He'll get back to you separately on that.

Please let me know if you have any questions or need any clarification on any of this.
As always, we appreciate your patience with some of our processes and look forward to a favorable resolution of all these issues.
Please extend our best holiday wishes to the board and staff.
Thanks

Paul R. Poston
Director, Great Lakes District
NeighborWorks® America
2368 Victory Parkway, Suite 210
Cincinnati, OH 45206
Direct: 513.569.5886

EX: D

Toll Free: 877.316.8880 x 208
Mobile: 513.519.2137

From: Gary Henriott [mailto:ghenriott@henriott.com]
Sent: Wednesday, November 19, 2008 11:51 AM
To: Paul Poston
Cc: 'Marie Morse'
Subject: A couple of items

Good morning Paul-
I hope all in well with you and Neighbor Works!
We had another very good Board meeting yesterday and I want to follow up with you on a couple of important items. We HOPE we are out of bankruptcy by the end of December- December 2008- just to be clear (a little dark humor). Once this wonderful event happens, what should we expect from NWA? We are on provisional status now, as we all know. Will we be reinstated with in good standing once bankruptcy is finished? By the way, our audits for 12/31/06 and 12/31/07 are completed and they will be released to everyone once we emerge from bankruptcy. We would like to know what your process will be so we can manage our expectations. Also, if there will be a review process, we would like to know what that will entail so we can be prepared to provide you with the information you will be asking for. I would appreciate your counsel on these questions!
Also, I know that you and Marie have talked in the past about our organization being re-qualified as a HUD Counseling Certified Organization. I think we were told that we were eligible to receive HUD counseling funds through NWA. I would like to check with you on the status of this effort. We do want to regain our status and we are looking for the best way to get this accomplished.
Thanks Paul for all your help! You and Tony have been real supports and friends throughout this long ordeal. I appreciate all your efforts on our behalf and I know the Board feels the same way! I look forward to hearing from you!
Gary

Gary D. Henriott, CPCU
Chairman and CEO
Henriott Group, Inc.
765-429-5000 ext.222
ghenriott@henriott.com
PO Box 4547
Lafayette, IN 47903-4547

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NeighborWorks® AMERICA

Organizational Assessment Division
1111 West 39th Street
Suite 200 West
Kansas City, Missouri 64111

(816) 753-2404
FAX (816) 714-1295

February 02, 2009

AUDIT COMPLIANCE NOTICE

Marie Morse
Lafayette NHS, Inc.
P.O. Box 256
Lafayette, IN 47902

Dear Marie Morse,

Based on our review of your 2006 fiscal year audit and related financial statements, your organization complies with our current audit requirements. Thank you for meeting this important audit responsibility in an effective manner.

Our Investment and Grant Agreement now requires the submission of the organization's latest annual IRS Form 990, or its approved extension. Please send us a copy when it is feasible to do so.

We appreciate both your diligence and responsiveness to our needs. Please contact me at (816) 714-1233 or by e-mail at oadaudit@nw.org with any questions or for further information.

Sincerely,

Richard J. Pryor, Internal Assessments
Organizational Assessment Division - Audits

cc: District Director
Audit File

EX: E

February 12, 2009

Mr. Jim Slaven, Board President
Lafayette Neighborhood Housing Services
20 N. 6th Street
Lafayette, IN 47901

RE: Disaffiliation of Lafayette Neighborhood Housing Services

Dear Mr. Slaven:

In accordance with the Agreement to Conditions of Charter dated October 7, 1993, between Lafayette Neighborhood Housing Services and NeighborWorks® America (the Corporation), the Corporation hereby revokes the Charter of Lafayette Neighborhood Housing Services (LNHS) and all Charter rights and privileges. This action is taken due to:

- LNHS's prolonged inability to meet the charter standards of the network organizations and the business practices at Lafayette NHS which resulted in significant financial losses for all creditors.
- The significant financial losses incurred by NHSA, NHSA-CDFI and the Corporation as a result of the bankruptcy.

The Charter revocation is effective as of the date of this letter.

Based on the ***terms of the Investment and Grant Agreement between Lafayette Neighborhood Housing Services and the Corporation***, LNHS has permanently restricted capital funds of $2,476,000 allocated by the Corporation. Of this, 90% was held in fixed assets, mortgage notes receivables and property held in other funds. However, due to the bankruptcy, the auditors have written off $2,092,231. The remaining NeighborWorks® capital funds of $383,769 are likely invested in mortgage receivables and real estate held by LNHS. The Corporation intends to allow LNHS to retain the capital funds it currently holds.

The Corporation also requests that any remaining noncash balances in the Corporation's permanently restricted fund balance be secured through assignments or liens. As a result of the revocation of your charter, LNHS is no longer eligible for grants or other technical assistance provided by the Corporation. The Corporation has allocated to LNHS a total of 9 slots for NeighborWorks® Training Institutes, which must be used by the end of the current fiscal year, August 2009. In addition, LNHS must desist from any further use of the NeighborWorks® service mark.

The Corporation regrets the need to revoke the Charter of LNHS. NeighborWorks® America appreciates LNHS's professionalism and willingness to work with the Corporation during this difficult time.

Sincerely,

Paul Poston
Director, Great Lakes District
NeighborWorks® America

cc: Jeffrey Bryson, General Counsel/Secretary, NeighborWorks® America
Michael Forster, CFO, NeighborWorks® America
Frederick Udochi, Internal Audit Director, NeighborWorks® America
Robert Burns, Director, Field Operations, NeighborWorks® America
Ron Johnston, Director, Organizational Assessment, NeighborWorks® America
Paul Kealey, Director, Training, NeighborWorks® America
Royston Lewars, Management Consultant, NeighborWorks® America
Jim Ferris, NeighborWorks® Capital Representative
David Landis, NHSA Representative

APPENDIX I:

DISAFFILIATION PROTOCOL

Stage One:

- District director in consultation with the director of field operations decides to place the organization on provisional status. The OAD, Office of General Counsel and COO (who will inform other key managers) should all be notified about this decision.

Stage Two:

- Create a Memorandum of Understanding that delineates timelines, assigned roles and responsibilities and plans for communication/reporting.

Stage Three:

- Were the objectives of the MOU achieved? If yes, then proceed with close out and monitoring. If no, then proceed to stage four.

Stage Four:

- District determines objectives not achieved and documents them. District recommends disaffiliation to director of field operations who forwards the recommendation to the COO for determination.
- Director of field operations evaluates and acts on the recommendation in consultation with district, Office of General Counsel, and COO. If the disaffiliation is not approved, then the process returns to stage one. If the disaffiliation is approved, then proceed to stage five.

Stage Five:

- District staff, with the assistance of NHSA, as appropriate, performs a physical inventory and quality assessment of NeighborWorks® America assets within the organization.
- The workout task group submits a disaffiliation plan to the Officers.
- District director submits a letter of disaffiliation to the organization, demanding repayment of permanently restricted funds and requiring no further use of the NeighborWorks® Service Mark and other charter privileges.
- Close out relationship with organization by completing the following:
    - Notify the organization of any acceptable uses of any funds invested;
    - Determine disposition of loan funds and loan transfers (see Appendix K);
    - Determine disposition of real estate investments (see Appendix M); and
    - Obtain close out audit or assurance on the accountability of all NeighborWorks® America assets.

EX: F

Key definitions used throughout this Policy and Procedures Manual include:

- **NeighborWorks® Organization:** A local, nonprofit organization whose board of directors has signed and maintains the conditions of a Chartering Agreement and a Memorandum of Understanding with the Corporation. Criteria for chartering as a NeighborWorks® organization includes having an organizational structure composed of a partnership of residents, the private and public sectors; a mission that includes neighborhood or community revitalization, housing production and/or economic development for people with low and moderate incomes; broad support in the community; and demonstrated organizational capacity needed to accomplish its mission.

- **NeighborWorks® Network:** Local nonprofit organizations that have met the criteria for being chartered as NeighborWorks® organizations. NeighborWorks® America provides grants, technical assistance, access to the secondary market administered by Neighborhood Housing Services of America, and training to chartered NeighborWorks® organizations.

- **District (or district office):** One of the eight district offices managed by the Corporation throughout the country.

- **Field Operations:** Corporate division, which includes district offices that broker services and resources to local NeighborWorks® organizations.

- **Lines of Business:** The major programs, products and services provided by an organization. Normally an activity should be counted as a "line of business" only if the organization has a long-term commitment to it and has both dedicated staff and dedicated revenues that support it.

- **Organizational Assessment Division (OAD):** Corporate division responsible for reviews, assessments and audits of local NeighborWorks® organizations.

- **Underserved Communities:** Communities with a concentration of low- and moderate-income people and a lack of quality affordable housing, particularly those areas not served by the conventional lending market, and where community development needs are not being met.

- **Service Area:** A census-tract-based geographic designation (individual states/counties/cities or a selected group of census tracts) where a NeighborWorks® organization makes one or more of its business line services available.

This Policy and Procedures Manual is not a static document, just as the NeighborWorks® network is not a static entity. Suggested revisions that may result from experience or changes over time are always welcome and can be conveyed to the director of field operations.